



STATE OF WASHINGTON

ECONOMIC AND REVENUE THE FORECAST COUNCIL

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FOR IMMEDIATE RELEASE

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OLYMPIA, February 15, 2006 --- The U.S. economic forecast is similar to the forecast adopted in November. In Washington, the outlook is also similar though fourth quarter 2005 housing permits and construction employment growth were higher than expected reflecting continued strength in this area. Revenue collections since November were stronger than expected in large part due to continued strength in construction and real estate in the fourth quarter. As a result, the revenue forecast for the 2005-07 biennium has been increased by \$107.3 million.

This forecast is the first to extend through the 2007-09 biennium. The forecast expects the U.S. economy to continue to grow close to its potential rate during 2008 and 2009. Real GDP growth will average about 3 percent, the unemployment rate will hover around 5 percent, and inflation will remain low at about 2 percent. Locally, the forecast assumes the aerospace expansion will continue through mid-2008, adding another 11,100 jobs to the 10,600 that have been added since May 2004. Washington housing permits are expected to decline but the reduction will be moderated by continued strong population growth and an upturn in nonresidential building. As a result, construction employment growth will slow but not turn negative.

The February 2006 General Fund-State revenue estimate for the 2005-07 biennium is \$26,443.0 million, which is \$107.3 million more than expected in November. The forecast change includes a \$51.6 million non-economic reduction. Excluding this, the forecast would have been \$158.9 million higher than expected in November of which \$76.0 million is due to higher than expected revenue collections during the last three months. The forecast for the next biennium is \$29,027.7 million, an increase of 9.8 percent from the current biennium.

As required by law, optimistic and pessimistic alternative forecasts were developed for the 2005-07 biennium. The forecast based on more optimistic economic assumptions netted \$721 million (2.7 percent) more revenue than did the baseline while the pessimistic alternative was \$689 million (2.6 percent) lower. An alternative forecast based on the average view of the Governor's Council of Economic Advisors yielded \$85 million (0.3 percent) less revenue than did the baseline forecast.

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